



Will Manley ~ City Manager

Jerry Hart
Financial Services Manager

Cecilia Velasco-Robles
Deputy Financial Services Manager

Michelle Caruso
Senior Budget & Finance Analyst

Deborah Bair
Lead Budget & Finance Analyst

Tom Mikesell
Senior Budget & Finance Analyst

Anita Erspamer
Executive Assistant



Annual Budget FY 2006/07

Tempe Mayor & City Council



Hugh Hallman
Mayor



Mark Mitchell
Vice Mayor



Leonard Copple
Council Member



P. Ben Arredondo
Council Member



Pamela L. Goronkin
Council Member



Barbara Carter
Council Member



Hut Hutson
Council Member



Table of Contents

Introduction

Budget Award	vii
City of Tempe Mission Statement	ix
Organizational Chart	xi
Budget Message	1

Budget Summaries

Budget Summaries Contents	11
Budget Policies	12
Fund Summary	16
Total Financial Program	17
Financial Program Summary	18
Budget Process Flowchart	19
Budget Process Summary	20
Components of Total Financial Program	22
General Governmental and Enterprise Funds: Ten Year Fund Balance Trends	23
Capital Budget	
Capital Budget Overview	25
Capital Improvements Project Map	28
Capital Improvements Program Summary	29
Capital Improvements Program Source of Funds	30
Capital Improvements Program Changes in Fund Balances	31
Capital Improvements Program Project Listings and Descriptions	32
Relationship Between Operating and Capital Budgets	48
Projected Impact of Capital Improvements on Future Operating Budgets	50
Debt Policy	51
Capital Budget, Debt Service, and Property Tax Rate: Ten Year Historical Trends	52
Property Taxes	53
Citywide Overview	54
Program Budget	
Program Budget at a Glance	52
Per Capita Expenditures by Program	56
Program by Fund Summary	57
Program by Department Summary	58
Impact of Total Budget on Residents	59
Personnel Summary: Ten Year History	60

Comprehensive Financial Plan

Comprehensive Financial Plan Contents	61
Comprehensive Financial Plan Overview	62
Forecast Methodology	63
Forecast and Major Revenue Assumptions	64
Financial Overview	66
Major Expenditure Assumptions and Economic Outlook	67
General Fund	68
Transit Fund	70
Performing Arts Fund	72
Transportation Funds	74
Enterprise Funds	76
Rio Salado and Community Facilities District Funds	82
Financial Action Plan	84

Revenue Information

Revenue Information Contents	87
Total Revenue	88
Total Revenue by Source	89
Components of Total Revenue	90
Comparative Operating Revenue by Major Source and Fund	91
General Governmental Revenue: Ten Year Historical Trends	94
Special Revenue: Ten Year Historical Trends	104
Enterprise Revenue: Ten Year Historical Trends	109

Performance Budget

Performance Budget Contents	113
Performance Budget Summary	114
Per Capita Performance Budget	115
Strategic Issues Management/Budgeting	116
Council Committees and Strategic Issues	117
Performance Benchmarking	118
Organizational Chart	119
<i>Departments</i>	
Mayor and Council	120
City Manager	122
Internal Audit	123
Diversity Program	124
Community Relations	126
City Clerk	131
City Court	132
Human Resources	134
City Attorney	138
Financial Services	140
Information Technology	148
Development Services	150
Community Development	152
Police	158
Fire	164
Community Services	172
Parks and Recreation	178
Public Works	182
Water Utilities	194

Schedules and Summaries

Schedules and Summaries Contents	197
Budget Resolution	198
Property Tax Ordinance	199
Budget Schedules	200
Budget Basis, Units, and Changes	206
Financial Structure and Organization	207
Annexation Progress	208
Tempe Community Profile	209
Personnel Summary	214
Personnel Schedules	215
Glossary of Terms	250
Index	288
OMB Staff	292



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**City of Tempe
Arizona**

For the Fiscal Year Beginning

July 1, 2005

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented an Award for Distinguished Budget Presentation to the City of Tempe for its fiscal year beginning July 1, 2005.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communications medium.

The award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

Mission...

To work with each other and the community to make
Tempe the best place to live, work and play.

We Value...

People

We appreciate the talents of each person and encourage responsible decision making at the most appropriate level. We recognize the importance of personal and professional development.

Creativity

We encourage imaginative problem solving, innovation, resourcefulness and responsible risk taking.

Quality

We provide superior services and are committed to continuous improvement. We are attentive to the changing needs of the people we serve.

Integrity

We are honest, accountable and trustworthy.

Openness

We are accessible and work as a team by sharing information, ideas, resources and responsibility.

Respect

We welcome individual and professional differences and treat everyone with dignity, courtesy and sensitivity.

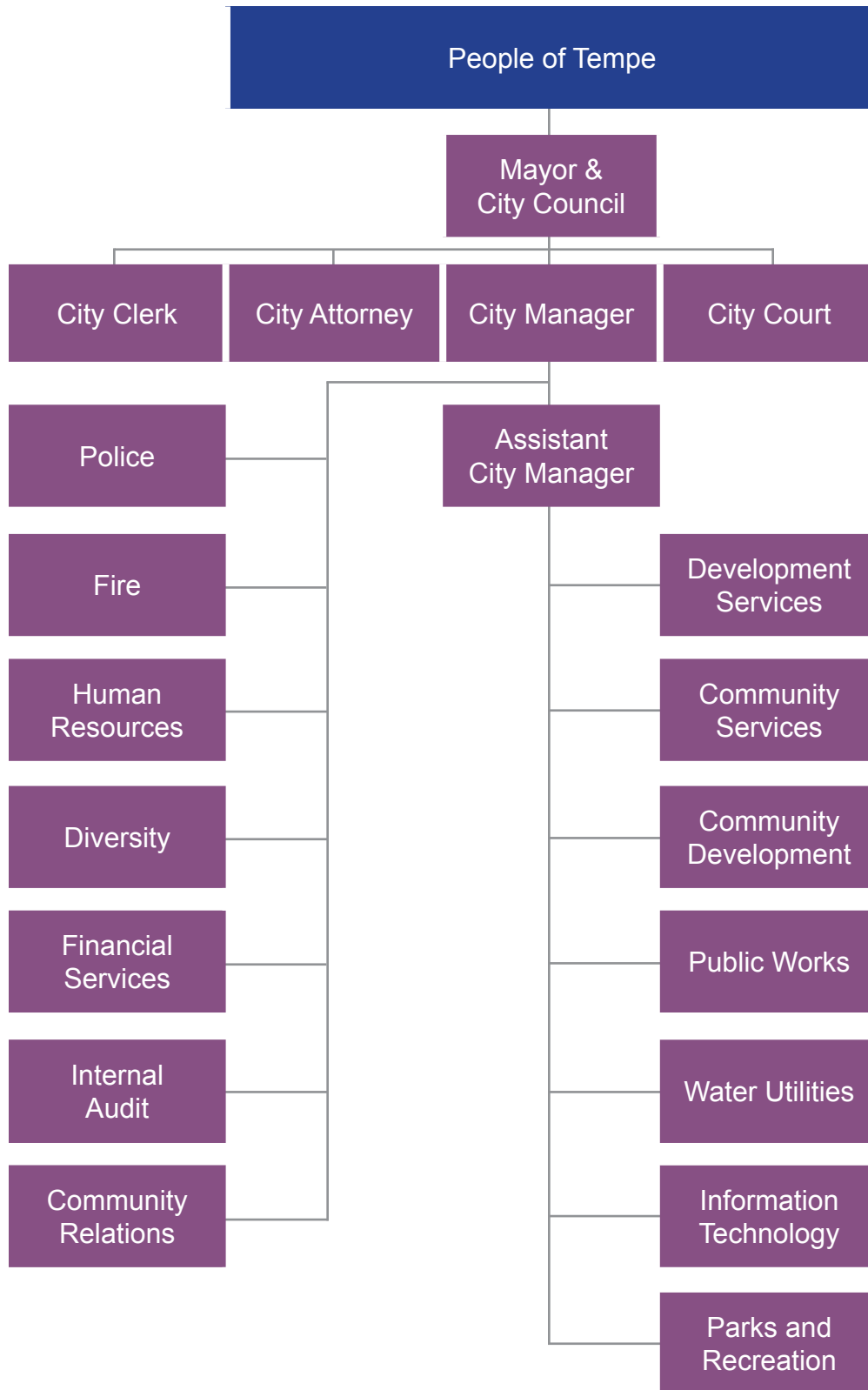
Diversity

We promote diversity in the workforce to meet the needs of a diverse community. We recognize that with diversity comes strength.

Teamwork

We work together to provide the best possible service to our community.

Organizational Chart





June 15, 2006

To the Honorable Mayor and City Council:

Transmitted herein is the City's Fiscal Year 2006-07 Financial Program. The combined operating and capital budgets included in the financial program total \$511 million, which represents a change of \$45.6 million, or 9.8% from the FY 2005-06 adopted budget. Additional personnel, increasing health insurance costs, retirement system contribution rates and annual step increases are driving the growth in the operating budget. The increase in the capital budget is largely attributable to increases in the Water/Wastewater, Transit, and Transportation programs.

The City's economy is exhibiting solid growth in all sectors including retail, contracting, restaurants, and commercial rentals indicating a broad-based expansion. Even though it is expected that this growth will moderate going forward, the five year long-range financial forecast projects General Fund surpluses throughout that planning horizon.

FINANCIAL PROGRAM SUMMARY

Total Annual Financial Program		
	FY 2005-06 Budget	FY 2006-07 Budget
Operating Budget	\$275,297,746	\$314,115,625
Percent Change		14.1%
Capital Improvements Budget	\$189,971,703	\$196,728,491
Percent Change		3.6%
Total Financial Program	\$465,269,449	\$510,844,116
Percent Change		9.8%

OPERATING BUDGET

The following table presents a summary breakdown of the operating budget by fund.

Operating Budget Summary			
	<i>FY 2005-06 Budget</i>	<i>FY 2006-07 Budget</i>	<i>Percent Change</i>
General Fund	\$138,273,504	\$158,994,288	15.0%
Special Revenue Funds			
Transportation	8,656,870	9,413,469	8.7%
Transit	31,118,922	35,313,568	13.5%
Rio Salado	1,551,834	1,983,090	27.8%
Performing Arts	6,868,730	9,106,148	32.6%
CDBG/Section 8	11,731,640	11,502,474	-2.0%
Debt Service Fund	14,411,213	16,495,505	14.5%
Enterprise Funds			
Water/Wastewater	47,720,279	54,797,488	14.8%
Solid Waste	12,602,968	13,955,883	10.7%
Golf	2,071,538	2,195,431	6.0%
Cemetery	290,248	358,281	23.4%
Total Operating Budget	\$275,297,746	\$314,115,625	14.1%
Capital Improvements Budget	\$189,971,703	\$196,728,491	3.6%
Total Financial Plan	\$465,269,449	\$510,844,116	9.8%

Operating Budget Highlights

Personal Services costs comprise approximately 50% of the operating budget. As a result, it is not surprising that growth in this category drives total budget growth.

- **New Personnel**
Addition of 66 full-time equivalent positions to address citywide workload concerns (\$3.2 million impact citywide; \$2.0 million impact to the General Fund)
- **New and Replacement Capital Outlay**
Over \$6.0 million in new and replacement motor vehicles, heavy equipment, and other capital (\$2.7 million impact to the General Fund)
- **Salary Progression**
Movement of existing employees through the established salary ranges (\$4.0 million impact to the General Fund)
- **Health, Dental & Life**
Human Resources estimates a 13% increase in benefit costs (\$3.3 million impact to the General Fund)
- **Public Safety Retirement (General Fund)**
Police contribution rate is set at 14.1%, an increase from 13.9% in previous budgets (\$1.0 million impact);
Fire contribution increased from 11.63% to 14.2% with a \$440,000 impact

- **State Retirement Fund**
Arizona State Retirement System contribution rate is set at 9.1%, an increase from 7.4% in previous budgets (\$0.9 million impact to the General Fund)
- **Sponsorship costs for the Insight Bowl**
(\$1.2 million impact to the General Fund)
- **Contingency Budget**
Revenue growth has allowed for an increase in the General Fund Contingency Budget (\$1.9 million).

Capital Budget

The City's five-year Capital Improvement Program (CIP) covering FY 2006-07 through FY 2010-11 totals \$552.2 million. The first year of the five-year CIP, which the City incorporates into the annual budget, is \$196.7 million for FY 2006-07.

As is typical, funding requests exceeded available sources. Funding sources are maximized within the financial policies established by the Council.

Capital Budget Highlights

Continued funding for the Transit program (\$111.9 million) including:

- Continued funding for the Central Phoenix and East Valley Light Rail Transit System (\$58.4 million)
- Continued funding for the Transit Regional Maintenance Facility (\$33.9 million)
- Continued funding for the Tempe Transportation Center (\$13.1 million)

Continued funding for Water projects (\$31.3 million) including:

- Continued funding for expansion at the Johnny G. Martinez Water Treatment Plant (\$19.0 million)

Capital Improvements Program Summary						
Program	2006-07 Funded Program	Additional Needs				Total Five-Year Program
		2007-08	2008-09	2009-10	2010-11	
Enterprise Program	\$31,257,580 24,959,000 50,000 56,266,580 111,901,276 3,700,000 115,601,276 17,037,406 7,823,229 140,461,911 \$196,728,491					
Water		\$21,884,800	\$3,843,357	\$1,476,000	\$1,476,000	\$59,937,737
Wastewater		24,550,000	20,950,000	11,272,802	7,120,000	88,851,802
Golf		50,000	50,000	50,000	50,000	250,000
Subtotal Enterprise		46,484,800	24,843,357	12,798,802	8,646,000	149,039,539
Special Purpose Program						
Transit		97,121,084	24,782,445	18,950,000	1,100,000	253,854,805
Rio Salado		3,743,500	11,250,000	4,925,500	2,246,000	25,865,000
Total Special Purpose		100,864,584	36,032,445	23,875,500	3,346,000	279,719,805
Total General Purpose		23,859,591	15,581,669	15,913,492	10,588,187	82,980,345
Total Transportation Program	7,646,634	7,049,379	8,632,527	9,277,031	40,428,800	
Subtotal Tax Supported	132,370,809	58,663,493	48,421,519	23,211,218	403,128,950	
TOTAL PROGRAM	\$178,855,609	\$83,506,850	\$61,220,321	\$31,857,218	\$552,168,489	

Continued funding for Wastewater projects (\$25.0 million) including:

- Funding for 91st Avenue Wastewater Treatment Plant expansion (\$21.6 million)

Continued funding for Police projects (\$7.3 million) including:

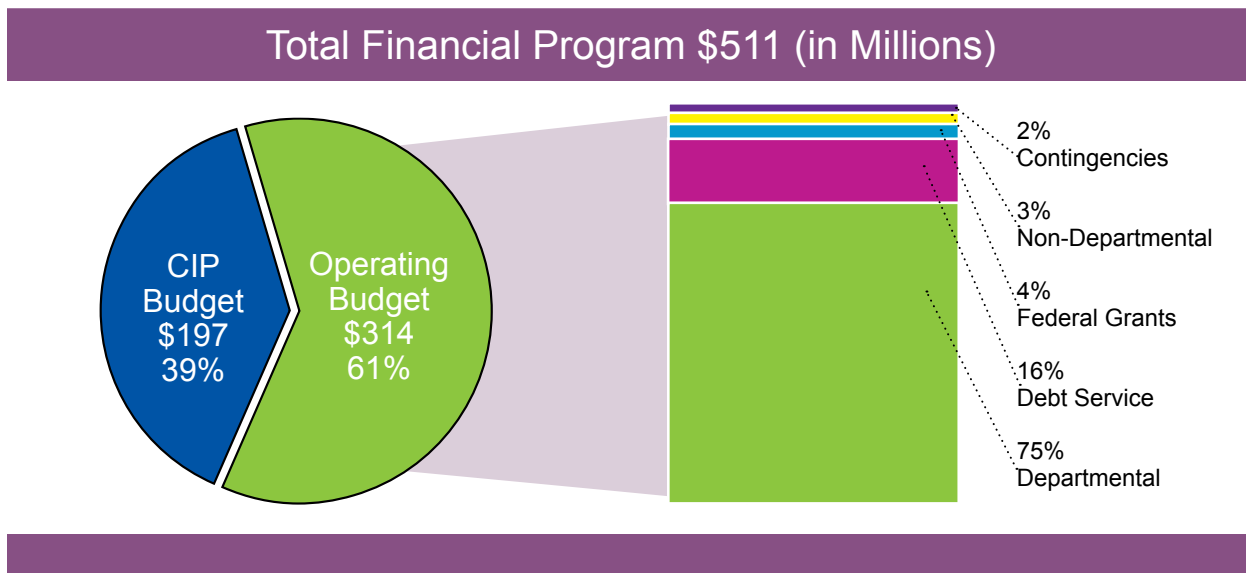
- Final funding for Apache Boulevard Police Substation (\$2.5 million)
- Continued funding for the Police Radio Replacement (\$2.6 million) and data management software systems (\$2.0 million)

Continued funding for Transportation improvements (\$7.8 million)

Funding for the Police Department Chiller Expansion (\$2.5 million)

Initial funding for the Tempe Public Library and Historical Museum renovations (\$1.6 million)

As the following graph below depicts, the operating budget represents 61% of the FY 2006-07 total financial program. Departmental budgets make up 75% of the citywide operating budget.



Revenue Considerations

The City will modify revenue as needed in several areas for FY 2006-07.

Utility Rate Reviews

Upon finalizing FY 2005-06 financial statements, Golf fees and Solid Waste rates will be reviewed to determine if adjustments are required. Council-authorized rate increases of 4.2% for Water and 7.1% for Wastewater services are scheduled for this upcoming November.

Review of Other Fees

In addition to the Enterprise Fund rate reviews, other fees are periodically reviewed. As part of this cycle, fees charged by the City Court, Development Services, Parks and Recreation, and Community Services Departments will be reviewed for potential adjustments.

FINANCIAL ASSESSMENT

Tempe has developed and maintained a strong financial position through conservative financial management and adherence to sound fiscal analysis and policies.

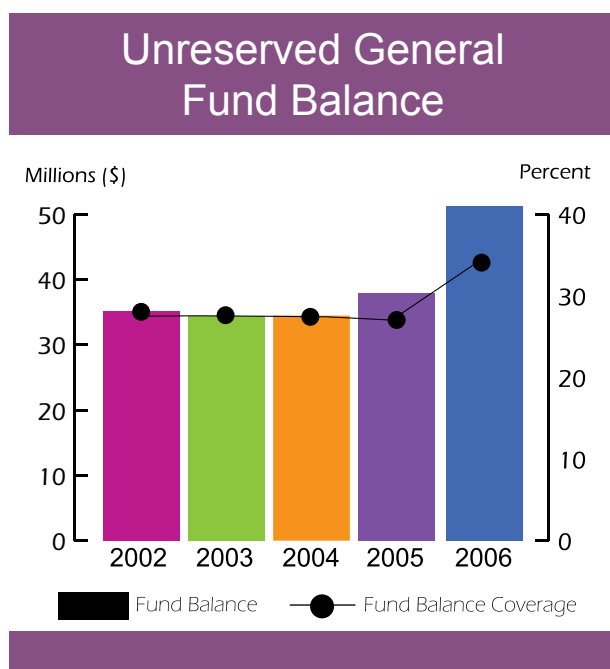
Fund Balances

One measure of a city's financial strength is the level of its fund balances (i.e., revenues in excess of expenditures). The City's estimated unreserved fund balance in the General Fund will approximate \$52 million as of June 30, 2006.

This balance represents 35% of FY 2005-06 total General Fund unreserved revenue. Our recommended guideline for General Fund fund balance coverage is a minimum of 25% of General Fund revenue. The City's Enterprise funds (Water/Wastewater, Golf, and Solid Waste programs) will have a combined fund unreserved balance of approximately \$64 million at the end of FY 2005-06.

Financial Reserves

Another indicator of a city's financial strength is the level of its financial reserves. The City has established financial reserves to absorb unforeseen liabilities. The City currently has self-insurance reserves totaling \$8.8 million to protect the City against potential claims. Additionally, the City has approximately \$19.5 million in debt service reserves to help stabilize and fund future debt service obligations. Included in the annual budget and financed from current revenues is \$5.0 million of contingency funding for unanticipated emergencies. Finally, the City's "rainy day reserve" of \$8.0 million is available for unexpected emergencies.



Bond Ratings

Fitch	December 2000	AAA
Moody's	April 1997	Aa1
Standard & Poor's	February 1992	AA+

Bond Ratings

The City's bond ratings are further evidence of its financial strength. Tempe's general obligation bonds are currently rated AAA by Fitch, Aa1 by Moody's and AA+ by Standard & Poor's. Having solid financial policies, prudent financial management practices and strong fund balances and financial reserves are principle reasons for these excellent bond ratings. These high ratings translate directly into lower interest rates on the City's debt.

Development Activity

City staff facilitated over 20 companies locating or expanding operations in FY 2005-2006 adding over 2,800 jobs with a capital investment of more than \$65 million in the community.

Highlights include:

- *Edward Jones completed construction of a 100,000 square foot office tower, their second on the campus of Arizona State University Research Park at Elliot and Price roads.*
- *Google selected Tempe, AZ for business expansion with the addition of 125 new employees.*
- *KPMG LLP, the audit, tax and advisory firm, has signed a 31,000-square-foot lease at Hayden Ferry Lakeside, a mixed-use development on the shores of Tempe Town Lake in Tempe. KPMG will anchor the second 12-story, 300,000-square-foot office tower, which is currently under construction and is expected to relocate more than 200 employees from its downtown Phoenix offices in 2007.*
- *The US Airways/America West Airlines corporate merger occurred in the community occupying an additional 300,000 square feet of office space and generating an additional 1,200 jobs.*

More than \$1 billion in development is occurring in Tempe right now, with the majority of this occurring in the city's Mill Avenue District and Tempe Town Lake area. There are 43 projects under way at this time:

- *Hayden Ferry Lakeside sold out its first 45 units in Edgewater Condominiums. The building is now completed and occupied. Units in its second tower, Bridgeview, are under construction and selling from \$500,000 to \$6 million. Two more residential buildings are planned.*

- Le Meridien, a four star hotel at Hayden Ferry Lakeside is currently going through the development process.
- The second commercial building at Hayden Ferry Lakeside is 80 percent leased. This tower will open in 2007. Expansion of the parking garage is about 50 percent complete. When finished, the garage has space for retail shops.
- The 18-story Cosmopolitan Building will offer approximately 150 luxury condo units, ground level retail, including a two-story Whole Foods Market where shoppers will use escalators and elevators to get their gourmet groceries home.
- The Armory Project consists of two residential towers near Sun Devil Stadium, one designed with smaller units for students and busy professionals with the other having larger spaces.
- Several smaller developments, including the Brownstones at Hyde Park, Millstone Townhomes, and The Residences at Town Lake are nearly complete. These will add another 150 residential units to the area.
- University Square, a \$500 million project near Arizona State University, is at the beginning stages of the development process. When complete, the project would offer residential, retail, hotel and commercial opportunities.
- Centerpoint Condominiums increased the size of its project from four 22 story towers to two 22 story and two 30-story buildings.

More than 100 special events took place at Tempe Town Lake last year, with a Tempe Convention and Visitors Bureau suggested economic impact of more than \$60 million. Included in these are the New Year's Eve Block Party, Ironman Arizona, Rock-n-Roll Arizona Marathon and Association of Volleyball Professionals (AVP) Pro Beach Volleyball.

Favorable Development Activity

Commercial Development

Job Growth

About one of every seven workers within Tempe holds a job with a technology-focused company. As a result, Economic Development added a staff member to focus on technology development, which focuses on biotechnology and high technology recruitment. The Arizona Biodesign Institute at Arizona State University is developing leading-edge medical research that will foster the commercialization of new therapies.

Tempe's city center is experiencing a resurgence of activity. Several luxury high rise developments are under

construction and will change the city's skyline and generate new activity in the downtown. The urban atmosphere of the downtown will continue to proliferate with new residents.

MAJOR POLICY CONSIDERATIONS

Budget appropriation choices were made within the context of the City's Comprehensive Financial Plan, (Debt Management Plan and Long-Range Financial Capacity Study), Council Budget Policies, and Strategic Issues Work Plan.

Debt Management Plan

The favorable bond ratings are due not only to having solid fund balances and reserves, but also result from adherence to the Debt Management Plan which links our future debt capacity to population, tax base growth, and current level of general operating revenue. The Capital Improvement Plan lives within the Debt Management Plan's design of limiting General Governmental tax supported debt issuance, currently averaging \$20.3 million per year over the five year CIP.

Long-Range Financial Capacity Study

The long-range financial plans and forecasts are updated annually in preparation for developing suggested budget policies for City Council consideration. The long-range forecast projects continued economic growth. Total retail taxable sales have grown over 16% over the last year, driven by strength in all business sectors. Though this brisk pace will moderate in the long-term, the broad based nature of the recent economic expansion supports a forecast of continued strength through FY 2006-07.

It is worth noting that this projection does not incorporate the potential impact to the City's finances of funding Other Post Employment Benefits (OPEB). An actuarial study has been commissioned and the results have been sent to the Finance, Aviation, Diversity, Human Resources and Tempe Community Council Committee for review and recommendations.

A "Comprehensive Financial Plan" Section is included which describes revenues and expenditures, issues, trends, and resource choices for all funds.

Council Budget Policies for FY 2006-07

The operating budget embraces the following tenets that historically have made the City financially strong:

- *the budget **provides that current revenues are sufficient to support current expenditures** ("We are living within our means" without drawing down general fund reserves for operating purposes);*
- *the budget **maintains the City's strong general fund reserves**;*
- *the budget **provides for a General Fund contingency appropriation** sufficient to support emergencies and unforeseen circumstances;*
- *the budget **provides an adequate level of maintenance and replacement dollars** to ensure that all capital facilities and equipment are properly maintained; and*
- *the budget **maintains a competitive compensation and benefits package.***

Strategic Issues

The City establishes strategic issues, goals and objectives to provide more long-range focus to resource allocation choices. The strategic issues, goals and objectives are aligned to Council committees as follows:

- Neighborhood Quality of Life and Public Safety
- Education Partnerships
- Community Services
- Transportation
- Finance, Aviation, Diversity, Human Resources and Tempe Community Council
- Technology Advancement, Tourism and Redevelopment
- Central City Development Committee of the Whole

The goal of each strategic team is to delineate long-range goals, formulate a cohesive strategy for each of the defined areas, and develop action plans to advance the city toward those strategic goals. Where relevant, departmental goals and objectives are linked to the City Council's Strategic Issues.

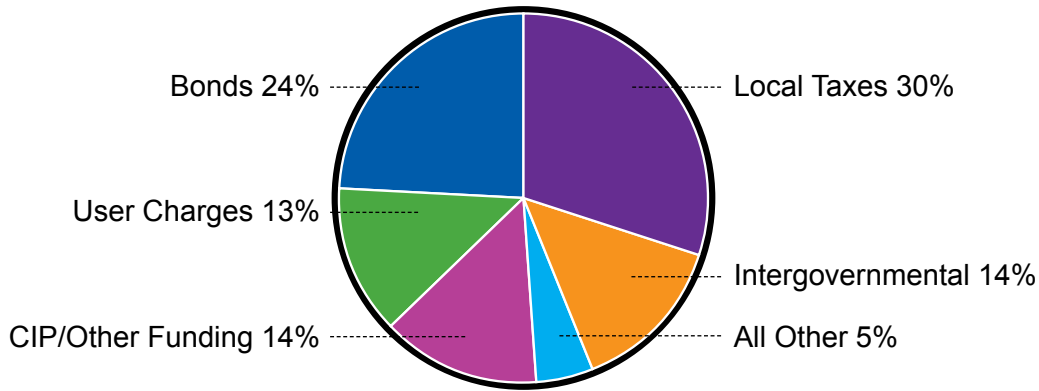
Income/Outgo

The following pie charts portray the City's income and outgo. Revenues are grouped by major category, while expenditures are shown by program area and by type of expenditure (such as personal services). Local taxes (e.g., city sales tax and property tax) continue to be the largest City revenue source, representing 30% of the FY 2006-07 total revenue budget. Other major revenue sources include bond proceeds, user charges (such as water service and solid waste fees) and intergovernmental revenue.

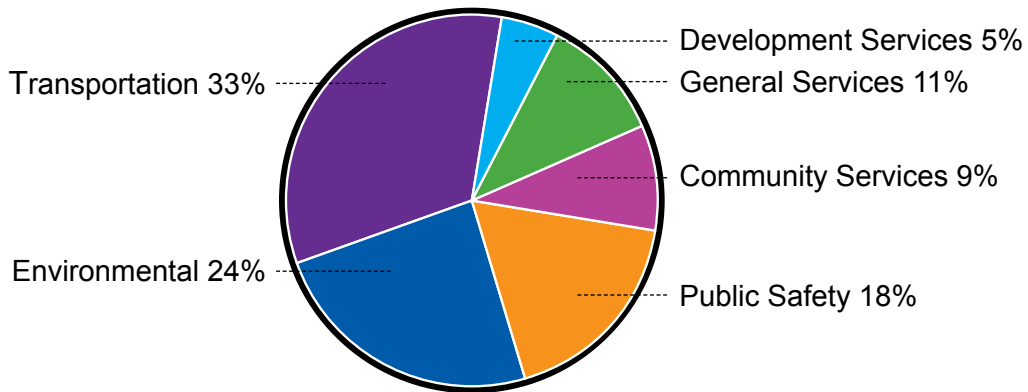
The pie charts show a breakdown of City expenditures and where the money is spent by program. Environmental Health and Transportation represent the greatest areas of program appropriation, accounting for 57% of the total financial program in FY 2006-07.

The final chart portrays budget appropriations by line item category. Capital Projects and Personal Services (salaries, wages and benefits) represent the largest portions of the total financial program.

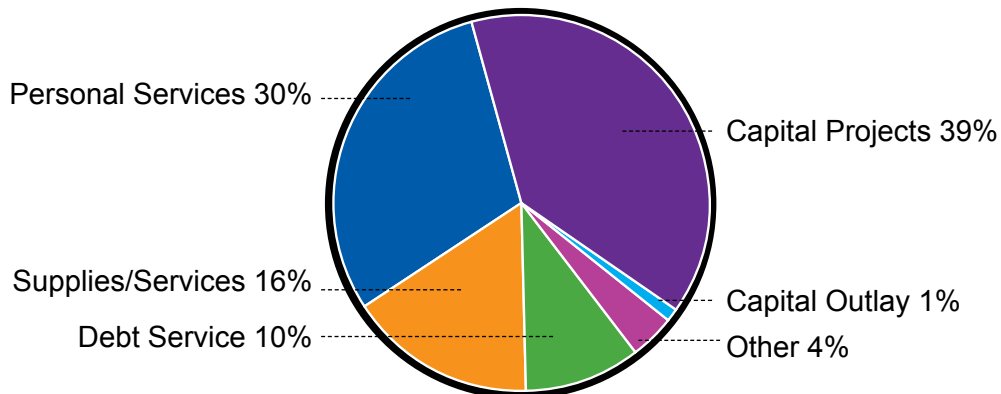
Where the Money Comes From by Source of Funds



Where the Money Goes by Type of Program



Where the Money Goes by Line Item Category



Conclusion

We can expect the brisk pace of the economy to moderate in the long-term, underscoring the need to continue to focus on our long-range planning and the management of our resources.

The following adopted budget is committed to Council's policy of preserving Tempe's quality of life and solid financial position by maintaining strong fund balances and reserves, recommending a balanced budget, and making decisions within the context of our long-range financial capacity study and debt management plan.

With final budget adoption, I want to thank the Mayor and City Council, residents of Tempe and City staff for their time and effort throughout this budget process.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Will Manley", with a stylized flourish at the end.

Will Manley, City Manager